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Poland

Trade Policy Monitoring

Poland's CAP Implementation 2005

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Report Highlights:

Poland implemented a mixed CAP system upon its May 1, 2004 EU accession. A large variety of programs are available under main categories of direct payments (some decoupled), intervention, rural area development, and the sectoral operational program. Main Poland New Member State (NMS) eligible agricultural sector financial support in 2004 totaled \$4.65 billion Euros (US\$6.27 billion) of which 57 percent is from EU funds and 43 percent from the Government of Poland's (GoP) budget. Many 2004-2006 support programs are outlined in this report yet actual full utilization of such funding is unlikely although the GoP and private sector will attempt to maximize use. Poland faces a challenging NMS transition, but the combination of many new financial supports and fast rising market prices are stimulating Poland's agricultural and food processing sectors.

Includes PSD Changes: No
Includes Trade Matrix: No
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Executive Summary

Poland joined the EU on May 1, 2004 as the largest of 10 New Member States (NMS) accounting for over half the population of all ten combined and bringing nearly 2 million farms, mostly small scale, into an expanded EU-25. Implementation of its new mixed CAP system in its large agricultural sector involves a large variety of elements that impact production, farm income, and trade.

Overall during Poland's first 8 months of EU membership (May-December 2004), total EU accession related eligible agricultural sector support funds totaled 4.65 Billion Euro of which EU funds account for 57 percent and Government of Poland (GoP) 43 percent. Other funds throughout 2004-2006 are outlined in this report yet actual utilization will be less certain. Funding from 2007 is less available as Poland and the EU adjust to new budgets and CAP system changes as outlined in GAIN report E34044 "CAP Reform 2003 – Deconstructing Decoupling", 8/6/04.

Four major subsidy categories are direct payments, intervention, sectoral operational programme and rural area development. These programs are primarily implemented by MARD agencies but also much is administered in collaboration with provincial and county level authorities.

The Minister of Agriculture and Rural Development stated in mid-October 2004 "Poland has never had such funds for agriculture". He encouraged Polish farmers to apply not only for direct payments but also other EU available Rural Development and Sectoral Operational Program funds.

Poland achieved a mixed CAP system during its EU accession negotiations in an effort to make funds more widely available to its many small scale farmers who otherwise would not be eligible. There are multiple program options for farmers and processors. Many are benefiting from new funding yet the complexities of the system, new EU related requirements, and pace of implementation pose transition challenges. For example, of Poland's 1.4 million direct payment applications, approximately 460,000 were approved. By near the end of December 2004 only 20 percent of such funds had been reportedly transferred although the remainder 2004 direct payments can be transferred up through April 2005. There has also been concern about whether or not the GoP could meet its budgetary commitments but thus far, officially such funds are available.

Commodity and trade impact analysis has been incorporated into a series of many commodity specific GAIN reports noted at the end of this report.

Table 1: Poland Agricultural Sector EU and Poland Government Funded Support Programs 2004

| POLAND AGRICULTURAL SECTOR | | | |
|---|-----------------------|-----------------------------|--------------------------------------|
| EU & Poland Government Funded Support Programs | | | |
| 2004 | | | |
| <u>Program</u> | <u>Funding Source</u> | <u>Euro Amt.</u> (‘000s) | <u>US\$ Equivalent 1/</u> (‘000s) |
| DIRECT PAYMENT | | | |
| SAPS | EU | 612,290 | 824,877 |
| COMPLEMENTARY | | | |
| RAD | EU | 215,600 | 290,456 |
| RAD | GoP | 53,900 | 72,614 |
| TOP UP | GoP | 528,115 | 711,477 |
| Subtotal | EU | 827,890 | 1,115,333 |
| | GoP | 582,015 | 784,091 |
| Total Direct Pmts | | 1,409,905 | 1,899,424 |
| <hr/> | | | |
| RAD | EU | 646,800 | 871,369 |
| (minus RAD | GoP | 813,000 | 1,095,274 |
| funds for Direct Pmts) | | | |
| Total RAD | | 1,459,800 | 1,966,643 |
| <hr/> | | | |
| SOP | EU | 1,192,689 | 1,606,791 |
| | GoP | 591,460 | 796,815 |
| Total Sectoral Op. | | 1,784,149 | 2,403,606 |
| <hr/> | | | |
| | EU | 2,667,379 | 3,593,493 |
| | GoP | <u>1,986,475</u> | <u>2,676,179</u> |
| GRAND TOTAL | | 4,653,854 | 6,269,672 |
| (Direct Pmts + RAD + Sectoral Op.) | | | |

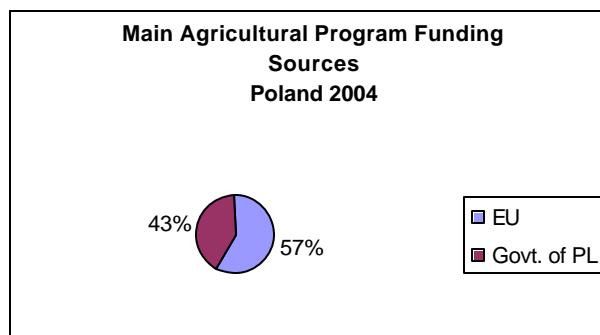
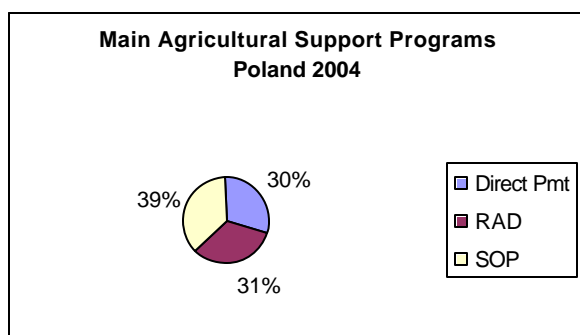
1/ Jan. 4, 2005 1Euro = US\$1.3472

SAPS - Single Area Payment System

RAD - Rural Area Development Fund

SOP - Sectoral Operational Programme

Source: Poland Ministry of Agriculture and Rural Development



I. DIRECT PAYMENTS (arable land / field crops)

Poland's new EU approved direct payment system consists of a per hectare Single Area Payment System (SAPS) and supplemental eligible crop area direct payments. SAPS funds are entirely from the EU while supplemental funds are drawn from mixed EU and Government of Poland (GoP) amounts from the Rural Area Development (RAD) funds plus GoP national budget top up funds.

MARD began distributing direct payments to 460,000 Polish farmers effective Oct. 18, 2004. There had been 1.4 million Polish farmer applications but most did not meet EU approval requirements. Distribution of such funds had been originally scheduled to begin Dec. 1, 2004 but the GoP request to begin such distribution on Oct. 18th was EU approved. Direct payment 2004 fund distribution is permitted through April 30, 2005. Direct payment programs in Poland are primarily implemented via MARD's Agency for Restructuring and Modernization of Agriculture (ARIMR).

Combined per hectare direct payments:

| | |
|--------------------------|------------------------------|
| SAPS | 210.52 PLN (\$69.94) |
| + Supplemental Payments | 292.78 PLN (\$97.27) |
| Combined Direct Payments | 503.31 PLN (\$167.21) |

(Note: 1 US\$ = 3.01 PLN as of 1/4/05)

1. Single Area Payment System (SAPS) per hectare

Farmers who own arable land over one hectare, provided that the arable "plot" is no less than 0.1 ha, are eligible for direct payments. The area payment rate per ha is **210.52 PLN**. The level of EU funded support amounts to **25 (2004), 30 (2005) and 35 (2006) percent** in direct subsidy value compared to the level of support in the EU-15

2. Supplemental Direct Payments (per hectare of eligible crops)

The accession treaty permits Poland to increase the level of payments for the same years above to **55, 60 and 65 percent** equivalence. Supplemental payments are based on crop area but only applicable for certain eligible crops similar to those in the EU-15. Resources for such funding are drawn from Poland's RAD; in 2004, 215.5 million Euro from the EU and 269.5 million Euro from the Polish national budget. For 2004-2006, Poland was authorized to utilize certain percentages noted in table 2 from the RAD and GoP national budget top up funds. In 2004 these were 11 percent from RAD and 19 percent GoP.

These are applicable only for field crops of grain, oilseeds, protein crops, flax and fibrous hemp, vetch, seed plantings, pastures and meadows. The supplemental payment rate is **292.78 PLN** per hectare of such field crops.

However, the rate for hops amounts to 1,000 PLN (\$332) per hectare. Supplemental production quantity related payments can also be applied to potatoes for starch production (250.82 PLN / \$83.32 per ton of starch) and tobacco (5 PLN / \$1.66 per kilogram).

Table 2: Direct Payment EU-15 Equivalency Percentage Transition Period (2004-2013)

| POLAND | | | | | | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| DIRECT PAYMENT EU-15 EQUIVALENCY PERCENTAGE TRANSITION PERIOD (2004 - 2013) | | | | | | | | | | |
| | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> |
| SAPS | 25 | 30 | 35 | 40 | 50 | 60 | 70 | 80 | 90 | 100 |
| RAD | 11 | 9 | 7 | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| TOP UP | 14 | 21 | 23 | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| RAD + TOP UP | 25 | 30 | 30 | 30 | 30 | 30 | 30 | 20 | 10 | 0 |
| TOTAL | 50 | 60 | 65 | 70 | 80 | 90 | 100 | 100 | 100 | 100 |

SAPS Single Area Payment System

RAD Rural Area Development funds

TOP UP Government of Poland Top Up Eligibility Percentage

Sources: (EC) No 1782/2003, (EC) No 864/2004,
Poland Ministry of Agriculture and Rural Development

II. INTERVENTION

CAP intervention administration and payments are led by MARD's Agency of Agricultural Markets (AAM). Such CAP mechanisms, administered by AAM, are focused on traders, storage companies, processing plants, producers and producers' groups, as well as farmers as in the case of milk production quotas. Poland's pre-accession government pork market intervention system was eliminated May 1, 2004.

Foreign Trade Mechanisms

The objective of using EU agricultural and food products foreign trade regulations is stabilization of the domestic market and monitoring of the volume of imports and exports within the EU according to MARD. As an administrator of foreign trade of agricultural and food products, the AAM is responsible for import/export permits as well as reimbursement certificates, payment of export reimbursement, export fee calculation, administration fine enforcement and reporting to the European Commission.

In the sphere of foreign trade of CAP, AAM is active on the markets of dairy products (milk), grains, sugar, beef and veal, pork, poultry and eggs, albumins, oils and fats, seeds, ethyl alcohol of an agricultural origin, rice, fruit, vegetables, bananas, wine, lamb, goats, flax and hemp.

-Subsidized Exports

Upon receipt of export permits authorized by MARD, applications for export subsidies on products are covered by the refund system. Subsidies are used to make EU agricultural and food products more competitive on other markets. The list of products covered by the refund system and the levels of subsidy rates are established by the European Commission and published in the European Community Official Journal. Refund levels can change depending on actual situations on the EU and world markets. For some products, export subsidy rates may be fixed based on the results of a tender organized by the European Commission and implemented by the AAM.

By the end of September 2004 AAM paid out 40.9 million PLN (US\$11.5 million at Sep. '04 exchange rate ave.) of "export reimbursement" and "special export refunds":

Grain Export Permits with Reimbursement

| | <u>'000 MT</u> |
|--------------|----------------|
| Malt | 16.5 |
| Wheat gluten | 10.5 |
| Feed | 5.8 |
| Glucose | 2.2 |

Milk and Milk Products export reimbursements from May 4 – end of August 2004 exceeded 20 million PLN (US\$ 5.44 million at May-Aug. '04 exchange rate ave.): Non-fat milk, full milk, cheese and butter.

Livestock and Poultry

| | <u>'000 MT</u> | <u>million</u> | <u>'000 kg</u> |
|--------------|----------------|----------------|----------------|
| Beef | 2.5 | Chicks 5.2 | Eggs 130 |
| Poultry meat | 0.195 | | |

Processed products

AAM is also responsible for foreign trade of Non-Annex I processed products. These are products which are not included in Annex I of the Amsterdam Treaty, so these products are not covered by CAP instruments.

The creation of a separate management system of foreign trade of processed products had to increase the competitiveness of EU basic agricultural products such as grain, rice, milk and milk products, sugar and eggs, as well as processed products like yogurt, ice cream and pastry. The European Union uses an export refund system for processed products. These refunds are applicable to some eligible ingredients of a final product.

-Import Permits, Duties and Export Fees

"Import permits and duty fees are basic instruments which help to protect the domestic market. Their main aim is to protect EU market from flow of very cheap products or raw

materials produced in third countries. Export fees help to limit the export of products out of the EU market when world prices on these products are higher or very close to the EU level." This is quoted in translation by FAS Warsaw from the MARD website.

Domestic Market Intervention

AAM agricultural product intervention purchases and sales cover grain (wheat/barley/corn), butter, powdered non-fat milk, beef and sugar. Intervention mechanisms administered by AAM cover intervention purchases, storage and sales of agricultural and food products kept as intervention stocks for the EU domestic market and intended for third countries. The aim of the intervention purchase and sale of agricultural and food products under CAP is to stabilize markets.

AAM is responsible for supervision, grant authorization, tender organization, finalization of purchase or sales agreements on products covered by intervention. AAM monitors the status of intervention stocks in cold rooms and storehouses. Under monitoring of intervention stocks, storage companies send AAM reports (daily, monthly and annually) about stock changes. Based on these reports, AAM periodically shares information with the EC about intervention stocks.

Mechanisms of subsidies for private storing

AAM grants subsidies to store surpluses and compensate for such storage costs. Subsidies for private storing are calculated according to the rates set by the EC. AAM pays subsidies for private storage of meat (pork, beef/veal, lamb, goat), butter, non-fat milk, cheese and wine/stum. It also monitors and administers all entities involved and reports to the EC; the EC is also involved in intervention stock decisions.

Mechanisms of subsidies for processing

Subsidies for processing are intended to increase market sales and manage production surpluses by creating additional demand for products. AAM administers subsidies related to the following processing products: starch for non-food processing, stum and concentrated stum, olive oil for processing, processing of flax and hemp straw to fibers, sugar used in chemical industry; processing of butter, concentrated butter and cream; concentrated butter for direct consumption, powdered non-fat milk for feed production, non-fat milk for production of caseine and its products and subsidies for purchase of butter from intervention stocks by non-profit institutions.

Other Mechanisms

AAM also administers the following on the domestic market:

- **Milk production quota** (especially administration of the milk quota system, control of purchasing entities and direct suppliers, calculation and transfer of fees); by the end of reference year, AAM granted milk producers over 430,000 administrative decisions by dividing about 7.5 million tons of milk among wholesale suppliers, as well as 24,000 decisions for producers which increased milk production or started it after the reference year.
- **Sugar fees** (through calculation and collection of production fees and sanctions, control of exports of sugar C and isoglucose C, control of the levels of sugar and isoglucose production).
- **Subsidies under starch production quota** (especially authorization of starch producers, administration of starch production quotas, control of purchase agreements, payments of production premiums.); for 2004/2005 the production

quotas were granted to 13 starch manufacturers (16 purchasing centers received authorization), together the producers of starch signed 9,757 purchase agreements for 144,960 tons of starch.

- **Subsidies for tobacco production** (especially administration of tobacco production quota, granting permits to the tobacco preprocessing plants, authorization of purchasing centers); the national tobacco production quota of 37,933 tons was divided among 1,358 farmers and 17 producers groups with 13,590 members. Total tobacco contracted volume in 2004 amounted to 37,673,591 kg.
- **Silkworm subsidies:** Subsidies for silkworm producers and breeders
- **Subsidies for production of dry fodder** (especially authorization of processors of dry fodder, entities purchasing green fodder, payment of subsidies);
- **Subsidies for milk and milk products consumption in the education institutions:** By the end of September 2004, 2,500 educational institutions with over 550,000 children signed up for the program;
- **Support for production and sale of honey:** The European Commission granted Poland finances for this program for apiculture development in 2004-2007.
- **Support for promotion and information activities on select agricultural products markets:** Poland eligible to tap into 41 million Euro of EU wide funds for product information and promotion programs covering fresh and processed fruit and vegetables, milk products, "quality" wine with geographical indicators, olives and olive oil, flowers and live plants, flax, egg consumption and fresh/chilled/frozen beef and veal. There is also financial support for promotion of such products in third (non-EU) countries but the precise financial amounts not available.
- **Supplying the poorest population of the EU with food products:** Poland as a unique new EU member participates in this program and received 23 million Euro. Over 10,000 tons of food products will be delivered to those who need it. Charity organizations, which administer such food aid distribution, estimate that around one million Poles will receive such food aid.
- **Non-market fruit and vegetables distribution:** Charity organizations and other entities entitled to receive for free and to distribute fruit and vegetables not introduced on the market.

III. RURAL AREA DEVELOPMENT (RAD) - 2004 – 2006

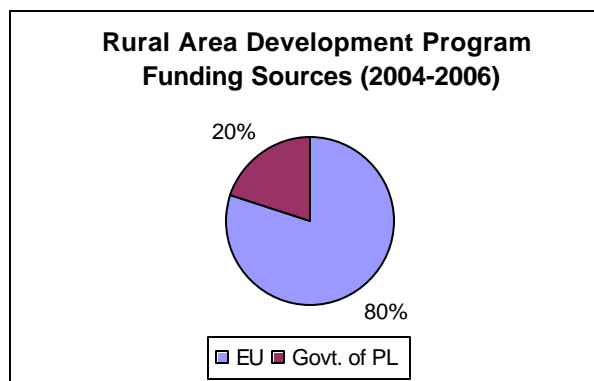
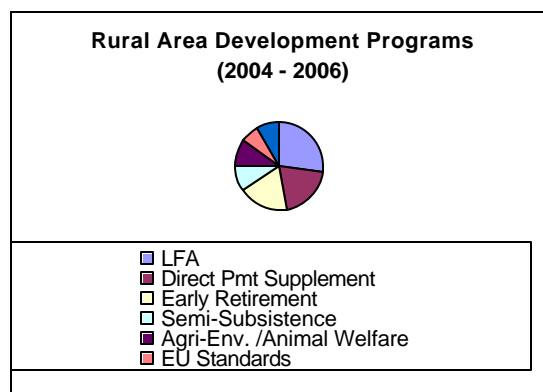
From 2004 through 2006 RAD funding will be 3.59 billion Euro of which 2.87 billion (80%) will originate from the EU and 696.6 million (20%) will be from Poland's national budgets. The largest funded RAD programs will be for less favorable area farm payments (976.8 million Euros), shifting of RAD funds to supplement direct payments (705.3 million Euros), early retirement pensions (640.5 million Euros), support for low income semi-subsistence farms (376.3 million Euros) and agri-environment/animal welfare programs (344.3 million Euros). RAD programs in Poland are primarily implemented via MARD's Agency for Restructuring and Modernization of Agriculture (AriMR).

Table 3: Rural Area Development (RAD) Program (2004-2006)

| RURAL AREA DEVELOPMENT (RAD) PROGRAM (2004-2006) | | | | | | | | |
|--|--------------|------------|--------------|------------|--------------|--------------|---------------|--------------|
| FINANCIAL TABLE (million Euros) | | | | | | | | |
| | 2004 | | 2005 | | 2006 | | (2004 - 2006) | |
| | Total | EU Amt. | Total | EU Amt. | Total | EU Amt. | Total | EU Amt. |
| Priority A Enhancement of competitiveness of the farm holdings | | | | | | | | |
| Early retirements | 149 | 119 | 214 | 171 | 279 | 223 | 641 | 512 |
| Support for semi-subsistence farms | 91 | 73 | 128 | 102 | 158 | 126 | 376 | 301 |
| Support for producer groups | 6 | 5 | 9 | 7 | 10 | 8 | 25 | 20 |
| Total Priority A | 246 | 197 | 350 | 280 | 446 | 357 | 1,042 | 834 |
| Priority B Sustainable and multifunctional development w/ special regards to environmental issues | | | | | | | | |
| LFA (less favorable areas) support | 245 | 196 | 366 | 293 | 366 | 293 | 977 | 781 |
| Agri-environment & animal welfare | 71 | 60 | 116 | 93 | 158 | 126 | 344 | 279 |
| Meeting EU standards | 72 | 58 | 84 | 67 | 88 | 70 | 243 | 195 |
| Afforestation | 27 | 21 | 34 | 27 | 41 | 33 | 102 | 81 |
| Total Priority B | 414 | 335 | 600 | 480 | 652 | 522 | 1,666 | 1,337 |
| Other actions | | | | | | | | |
| SAPARD projects approved under Reg. (EC) No 1268/1999 | 140 | 105 | | | | | 140 | 105 |
| Technical assistance | 13 | 10 | 11 | 9 | 10 | 8 | 34 | 27 |
| Total other actions | 153 | 115 | 11 | 9 | 10 | 8 | 174 | 132 |
| Sub-Total (A, B, Other) | 813 | 647 | 961 | 769 | 1,108 | 887 | 2,883 | 2,302 |
| Supplements to direct payments | 270 | 216 | 240 | 192 | 196 | 156 | 705 | 564 |
| GRAND TOTAL | 1,083 | 862 | 1,201 | 961 | 1,304 | 1,043 | 3,588 | 2,866 |

Note: "EU Amt." is the amount of RAD program totals covered by EU funds, remainder is from Polish budget.

Source: Ministry of Agriculture and Rural Development, July 2004



Less Favorable Areas (LFA) Payments

Farms located in areas with unfavorable conditions (e.g. mountainous areas with slopes) can receive up to 30 percent in additional payments. MARD notes the objective of this program is to compensate LFA farmers' higher production costs and counter depopulation of rural areas.

As of August 31, 2004 farmers submitted 628,939 LFA applications through county branch offices of the ARIMR which is equal to the area of 6,474,137 hectares. LFA actual implementation data are not available at the time of this report although MARD had hoped to fully implement such funding for qualified LFA farms by the end of 2004.

While there is no limit for farmers on direct payments per hectare based on the number of hectares, there is a 300 ha limit for LFA eligible payment participants. After receiving bonuses for three years, the beneficiary must prove that s/he reached partial goals of farm development in order to justify payments the next two years.

Table 4: Less Favorable Area (LFA) Farm Eligibility

LFA eligible areas include arable land, orchards, and pastures. Eligible areas are categorized as:

Lowland areas I and II
Mountain areas
Areas with special difficulties

LFA Payment Amounts Based on Type of LFA

| Type of LFA | | Payment (PLN/hectare) |
|---------------------------------|-----------------|-----------------------|
| Mountain | | 320 |
| Lowland | Lowland zone I | 179 |
| | Lowland zone II | 264 |
| Areas with special difficulties | | 264 |

(US\$1 = 3.01 PLN, Jan. 4, 2005)

LFA Payment Eligibility Based on LFA Farm Size

| Acreage (hectares) | Payment to LFA |
|--------------------|--|
| 1-50 | 100% of the payment for each hectare of land |
| 50.01-100 | 50% of the payment |
| 100.01-300 | 25% of the payment |
| Over 300 | 0% of the payment |

SAPARD (2004)

A major pre-accession EU funding mechanism for Poland's preparation for EU accession was the SAPARD program. The total SAPARD 2000-2003 program funding for Poland was 945.6 million Euros (US\$926.2 million, using ave. 2001-03 exchange rate) of which 709.4 million was from the EU and 236.2 million Euro from the GoP. Not all was utilized in originally planned schedules, but the EC agreed to allow Poland to carry over 140 million Euro of existing SAPARD funds (105 million EU and 35 million GoP) to be added to the 2004 Rural Area Development fund category.

Of 945.6 million Euro SAPARD total funding, most was dedicated, 47%, to "development and improvement of rural area infrastructure" (444.7 million total = 333.5 EU + 111.2 GoP), 32% to "improvement of processing and marketing of agricultural and fish products" (303.5 total = 227.6 EU + 75.9 GoP), and 10.3% to "investments in farms" (97.5 total = 73.1 EU + 24.4 GoP).

Structural Pensions

Structural pensions were created "...as an incentive for older farmers to stop farming and transfer their farms in a form which will help to improve vitality of farms in Poland and will give them sufficient sources of income after discontinuing farming." (translated from the Polish MARD website by FAS Warsaw).

There are several eligibility criteria. Such farmer applicants must be over 55 years old, have farmed for at least 10 years prior to application and transmitted (sold) their farm to other farmer/producers.

Structural pensions range from 210 to 440 percent of Poland's March 2002 implemented minimal/base monthly pension amount of 562.58 PLN (\$186.90). Consequently, the structural pension amount ranges from 1,181.42 PLN (\$392.50) to 2,475.35 PLN (\$822.38) based on additional criteria.

Low Profit Semi-Subsistence Farm Support

The goal of supporting low profit farms is to increase investment in farms with small economic potential. These farms are producing mainly for their own consumption and as a result of financial support, can begin market-oriented activities, improve their income and adjust to market conditions.

Support within this activity is intended to help stabilize Poland's agricultural sector. Farmers eligible must be "farming on his own farm or farm owned by his spouse" and meet criteria defining low profit farms according to MARD.

Such support will be in the form of bonuses paid within a period up to five years amounting to 5,878 zlotys per farm per year. After receiving bonuses for three years, the beneficiary must prove that “he” reached partial goals of the development of the farm that will justify payments in the next two years. MARD was planning to begin this program at the end of 2004.

Agricultural Environment / Animal Welfare

-Organic Farm Support:

Subsidies for each hectare of organic crop are available from EU funds (also GoP funds noted in Section V under “Animal / Plant Protection and Organic Farming GoP Subsidies”). They will be paid by the ARiMR out of the Action 4 – Support for agricultural and environment undertakings and animal welfare improvement of the Rural Areas Development Plan.

There were 3,600 applications received by ARiMR for about 46 million PLN (about US\$15.3 million), which will be paid for 2004 at the beginning of 2005. Only farms under 300 hectares qualify for these subsidies.

Table 5: EU Organic Farm Subsidies in Poland - 2004

| EU funded subsidies to organic farms | |
|--|--------------------------|
| | PLN per hectare per year |
| Farms without certificate* | 680 |
| Farms with certificate | 600 |
| Meadows, pastures without certificate | 330 |
| Meadows, pastures with certificate | 260 |
| Vegetables production without certificate | 980 |
| Vegetables production with certificate | 940 |
| Special production (orchards, berries) without certificate | 1,800 |
| Special production (orchards, berries) with certificate | 1,540 |

In case the farmer has both organic animal and plant production, the subsidy can be increased by 20 percent.

* Without certificate, it means the farm has to be in first or second year of transition from conventional to organic type.

IV. SECTORAL OPERATIONAL PROGRAM (SOP) 2004-2006

The Sectoral Operational Program (SOP) is intended to restructure and modernize the food industry and rural development from 2004 to 2006. Polish agriculture may receive support amounting to 1,784.2 million Euro (US\$2,403.7 million) within this program. Out of this, 1,192.7 million Euro will originate from the EU budget and 591.5 million Euro will come from Poland's (national and local governments) budget.

Another 945.3 million Euro would be required to be contributed (their capital investments) to such programs from private sector participant agricultural and food sector entities. Some participants in this program must have their own funds to co-finance such activities. Financial contribution of farmers to a project depends on the kind of support. SOP is primarily administered by MARD's Agency for Restructuring and Modernization of Agriculture (ARiMR).

Table 6: Poland Sectoral Operational Programs (SOP) 2004-2006

SECTORAL OPERATIONAL PROGRAMS (SOP) 2004-2006

(Million Euros)

| | -----PUBLIC----- | | | | | PRIVATE |
|-----------------------|------------------|-------|-----------------------|--------|-------|---------|
| Priority / Year | TOTAL | EU | --GoP Contributions-- | | | |
| | | Total | Total | Nat'l. | Local | |
| Priority I - Total | 1,315 | 839 | 476 | 476 | | 789 |
| 2004 | 307 | 196 | 111 | 111 | | 184 |
| 2005 | 439 | 280 | 159 | 159 | | 264 |
| 2006 | 569 | 363 | 206 | 206 | | 341 |
| Priority II - Total | 445 | 336 | 109 | 87 | 23 | 156 |
| 2004 | 104 | 78 | 26 | 20 | 5 | 36 |
| 2005 | 149 | 112 | 37 | 29 | 8 | 52 |
| 2006 | 192 | 145 | 47 | 38 | 10 | 67 |
| Priority III - Total | 24 | 18 | 6 | 6 | | |
| 2004 | 6 | 4 | 1 | 1 | | |
| 2005 | 8 | 6 | 2 | 2 | | |
| 2006 | 10 | 8 | 3 | 3 | | |
| TOTAL SOP | 1,784 | 1,193 | 591 | 569 | 23 | 945 |
| (priorities in total) | | | | | | |
| 2004 | 417 | 279 | 138 | 133 | 5 | 221 |
| 2005 | 596 | 398 | 197 | 190 | 8 | 316 |
| 2006 | 772 | 516 | 256 | 246 | 10 | 409 |

Note: GoP - Government of Poland

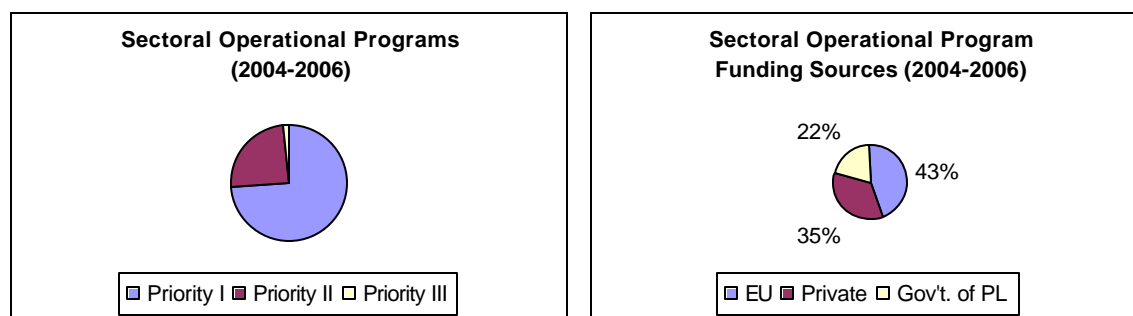
Priority Definitions:

Priority I - Supporting change and adjustment of agriculture & food sector

Priority II - Sustainable development of rural areas

Priority III - Technical assistance

Source: "Sectoral Operational Programme: Restructuring and Modernisation of the Food Sector and Rural Development 2004-2006", Ministry of Agriculture and Rural Development (MARD)



Farm Investments

Investment projects related to modernization of farms leading to adjustment to function on the common market will be supported within this activity. Support recipients may receive no more than 300,000 zlotys in the whole period of the program.

The maximum level of support amounts to:

50 percent of qualifying costs, or

60 percent of qualifying costs if the farm is located in the LFA, or

55 percent of qualifying costs if recipient is a young farmer

65 percent of qualifying costs, if the farm is located in the LFA and the recipient is a young farmer.

It is expected that from 2004 to 2006 around 17,000 farmers and other people acting in agriculture will participate in this program. Since August 16, 2004, branch offices of the ARiMR have been collecting applications for support within this program

Aid to Young Farmers

Financial support, in the form of a bonus, will be paid to young farmers who start to farm on their own. Support within this activity will accelerate the process of changing farm generations through access to financial resources helping farmers as a means to start agricultural activities and modernize farms. Aid will be given in the form of bonuses amounting to 50,000 PLN. To receive the bonus, the farmer must meet the following requirements:

age under 40 years; moment of starting farming on a new farm should be no longer than 12 months before allocation of the support;

adequate professional qualifications;

fulfillment of at least minimum standards in the area of environment protection, hygiene and animal welfare;

reaching adequate level of economic viability of the farm;

It is expected that from 2004 to 2006 such support will be granted to 14,500 young farmers who for the first time start agricultural activities. From September 15, 2004, ARiMR began accepting such program applications. Up to October 7, 2004, 1,068 young farmers applied for support.

Development and Improvement of Infrastructure Related to Agriculture

MARD estimates that financial supports under this program will be provided to 12,000 farms during 2004-2006. Up to 50 percent of eligible costs will be covered with maximum amounts as follows for construction and or modernization projects:

| | |
|---------------------------|-------------|
| -local roads (not public) | 200,000 PLN |
| -water supply systems | 80,000 |
| -sewage | 80,000 |
| -electricity systems | 120,000 |

Note: \$1 = 3.01 PLN, 1/4/05

Training

Such funding applies to all professionally organized training of farmers and others working in agriculture or forestry, farm management, and agricultural or forestry production. Refunds are paid for 100 percent of qualified costs of training companies. In 2004-2006, about 900,000 farmers will improve their professional qualifications because of such training according to the MARD website. This is managed by MARD's Foundation for Assistance Programs for Agriculture (FAPA).

Extension Service Support

Supports public and private extension services advising farmers how to use EU funds in the context of the CAP, its procedures and structural policies. Costs of such services are covered 100 percent. Around 1.6 million farmers may benefit from this program in 2004-2006 according to MARD.

Agricultural Product Processing and Marketing Improvements

This program covers projects for modernization of food processing plants to improve their marketing competitiveness, improve production quality, size, reduce costs, and meet any hygienic, environmental or breeding condition requirements. The maximum financial help can reach 50 percent of total qualified costs but no more than 20 million PLN (\$6.6 million) and no less than 100,000 PLN (\$33,223).

Applies to financial assistance for:

- purchase of professional transportation equipment
- construction or renovation related to building modernization or construction (includes technical infrastructure) for production, storage, lab control, common utilization or wholesale activities
- purchase or installation of equipment which improves:
 - quality, food safety, and monitoring
 - environmental protection

MARD estimates that about 1,000 processing plants will benefit from this program in 2004-2006.

Farmland Unification

Applies to regions with largely small and scattered farmlands. The objective is to expand individual farm sizes. EU funds cover 80 percent of qualified costs. MARD estimates that this will be implemented on about 42,000 hectares the unification of which will include creation of agricultural roads, drainage and culverts.

Agricultural Water Resource Management

Program focuses on water management related to soil impact, cultivation facilitation and arable land flood protection. Among qualified costs they are funded 50 percent by EU, 30 by Polish budget and 20 percent by farmers. A total cost of the investment has to be at least 120,000 PLN (US\$39,867). MARD estimates that about 800 projects, mostly for flood protection in rural areas, will be implemented in 2004-2006.

Farm Adjustments to European Union Standards

This provides financial support of farms to adjust to the EU standards regarding environmental protection, plant protection, animal health and animal welfare. Farmers and owners of poultry farms listed on the list of producers who have cages not consistent with EU standards qualify for the transition agreement (EC Directive 1999/74/WE).

Support will be allocated in the form of annual payments covering costs of investments necessary to implement new standards. A support may cover all described standards. Annual support can not exceed 25,000 Euros (US\$33,680) per farm.

Producer Groups

Support will be available to agricultural producer groups established to jointly adjust production standards and market products. Support will be allocated for creation and administrative costs of agricultural producer group operations for their first 5 years.

Financial support will be in the form of annual payments for the first five years upon recognized creation of an agricultural producer group. The group may choose semi-annual payments, but the first payment will be paid no earlier than 6 months after recognition of the group. The level of support will be calculated on a basis of annual gross sales of production from members of the group. It will not exceed:

- 5%, 5%, 4%, 3% and 2% of the value of production sold up to 1,000,000 Euros in the first, second, third, fourth and fifth years and
- 2.5%, 2.5%, 2%, 1.5% and 1.5% of the value of production sold over 1,000,000 Euros in the first, second, third, fourth and fifth year.

In any case, support may not exceed:

- first and second year 100,000 Euros
- third year 80,000 Euros
- fourth year 60,000 Euros
- fifth year 50,000 Euros

Agricultural Diversification and Alternative Incomes

Within this activity support will be offered to farmers and their family members for projects related to investments leading to start additional activities related to agriculture. Start of new, additional activity or development of existing activity that will use existing resources of the farm or region in relation to market needs, will create conditions to develop multifunctional, and economically persistent farms.

The level of support is 50 percent of qualified costs of investment. The maximum total support paid to one entity cannot exceed 100,000 PLN (US\$33,223). It is expected that from 2004 to 2006, 6,450 farmers, their family members and agricultural business people will receive support within this activity. Applications began to be received from September 15, 2004.

Non-Agricultural Programs Which May Indirectly Impact Agriculture

- Forestation of arable land

The objective is to support forestation of arable lands not owned by the State Treasury (government), and then, reassurance of proper nurturing of new plantations in the early stage of their development.

A farmer, obtaining at least 20 percent of income from farming on that farm is eligible. The owner must have farmland located within the borders of Poland being in "his or his spouse's possession" and obtaining over 80 percent of income from activities outside of agriculture. A group of farmers or owners of farmland (minimum 3 people conducting agricultural activities on a total area of at least 3 hectares) are also eligible.

Payment will be established on the basis of the area (per hectare) and paid annually:

- once – support for afforestation
- for 5 years – nurturing premium
- for 20 years – afforestation premium

Table 7: Forestation Subsidy Payments

Payments to beneficiaries

| | Forms of support | Softwood | Hardwood |
|----|---|-----------------|----------|
| 1. | Support afforestation | PLN per hectare | |
| | Afforestation on area with favorable configuration ^{/1} | 4,300 | 5,000 |
| | Afforestation on area on mountainsides with a slope exceeding 12 ⁰ | 5,100 | 5,900 |
| | Protection against wild animals, fencing with 2 meter high wire fence | 2,400 | |
| 2 | Nurturing premium without using repellants | PLN per hectare | |
| | On areas with favorable configuration | 420 | |
| | On areas with a slope exceeding 12 ⁰ | 750 | |
| 3 | Nurturing premium using repellants | PLN per hectare | |
| | On areas with favorable configuration | 700 | |
| | On areas with a slope exceeding 12 ⁰ | 1,100 | |
| 4 | Afforestation premium | PLN per hectare | |
| | - a farmer (20 percent of income from farming) | 1,400 | |
| | - an owner (over 80 percent of income from activities outside of agriculture) | 360 | |

Since September 1, 2004, farmers could submit applications.
(US\$1 = 3.01 PLN, Jan. 5, 2005)

^{/1} Flat areas with constant slope not exceeding 12⁰

-Forestry Restoration: Restoration of forestry production damaged by national disasters and/or fires. This includes introduction of preventative measures. Qualified costs are covered 100 percent of which 80 percent is EU funded. Approximately 33,000 hectares are estimated to be affected by this in 2004-2006.

-Conservation and Protection of Rural Cultural Heritage: 80 percent EU funded and 20 percent local government funded. Estimated 1,200 such projects in 2004-2006 with maximum amount at 450,000 PLN for each town or cultural institution.

OTHER

-Pilot Program Leader: Projects related to local rural development strategies enhancing areas as places for living and professional activities. Estimated 210 such projects.

V. OTHER AGRICULTURAL SECTOR SUPPORT PROGRAMS

Other agricultural support programs exist but may not include EU funding. Major ones are agricultural sector credit programs while MARD is also developing a potential new crop insurance support program.

Agricultural Sector Credit Programs (2004 – 2006)

A three year temporary continuation of some Polish Government programs were permitted in the context of Poland's EU accession negotiations. After the 2004-2006 period, such forms of support will shift to European Commission "Community Guidelines for State Aid in the Agriculture Sector" (EC Journal 2000/C/28/02, EC regulations 994/98 and 659/99).

The amount of a loan for a farmer cannot exceed 80 percent of investment costs spent on a farm but no more than PLN 4 million (about US\$ 1.33 million). The period of loan depends on the type of credit line and can last from 8 to 15 years, the grace period is 2-3 years. Interest depends on the type of credit line and can be between 0.25 to 0.65 of a bill's rediscount interest rate per annum, but not lower than 1.2 percent for "Young Farmer" loans for purchase of land and disaster loans, 2 percent for industry loans and 3 percent for other types of loans.

Post accession interest rate subsidies can apply to the following agriculture, food processing and agricultural service categories:

- creation or upgrading farms by people younger than 40 years old
- investments by producer groups
- industry investments
 - agricultural equipment usage
 - restructuring potato processing into starch
 - restructuring and modernization of meat, egg and milk processing
 - waste management systems
- purchase of real estate for creation or organization of a family farm
- new production technologies
- agricultural sector natural disaster loans
- farmland purchases
- creation or upgrading a farm as part of a program of farmer settlement on land owned by Poland's Treasury but endorsed by MARD

Preferential loans:

- up to 90 percent of purchase value for up to 20 years for agricultural real estate purchases for creation or organization of family farms
- investments in new agricultural technologies including production of ingredients for bio-ethanol/bio-components, high quality, improving animal sanitary production, environmental and maintenance of animal requirements (interest is 1 percent per annum)

Such preferential loans cannot be used for financing projects which can be financed by the funds of the Rural Area Development and Sectoral Operational Programs noted above.

In 2004 there were subsidies for interest of "turnover" loans used for:

1. purchase of agricultural production means;
2. purchase and storage of produce;
3. purchase and storage of seasonal overproduction of produce;

4. purchase and storage of sea fish stocks.

In 2004 farmers could apply for a loan to purchase equipment and other means of production the value of which is an equivalent of a price of 100 kg per 1 hectare, it means PLN 345.70 per hectare. The interest rate of such a loan is 2 percent.

On April 30, 2004 an amendment to the act on subsidies for loan interest was adopted which made possible a 12 to 24 month extension of the period of receiving loan interest subsidies for purchasing materials meant for agricultural production granted in the second half of 2003 and the first quarter of 2004.

Agricultural Insurance

MARD is reportedly developing a new agricultural insurance legislative proposal which beginning in 2006, would annually direct 307.5 – 449.5 million PLN (\$102.2- \$149.3 million) in funding to private agricultural insurance companies. The proposal focuses on a voluntary insurance policy for crops, natural disasters such as drought, and livestock. Participating insurance companies could introduce rates no higher than 2.5 percent on crop insurance and 0.9 percent for animals. Current Polish insurance market rates are reportedly 10-12 percent on crops and 5-6 percent on animals.

Animal / Plant Protection and Organic Farming GoP Subsidies

According to the Minister of Agriculture and Rural Development order of April 15, 2004 (OJ no. 72, art. 655), farmers can obtain GoP financing subsidies in the form of refunds for control costs for farms and research entities relating to:

- biological progress in animal and plant production
- fighting against animal contagious diseases
- plant protection
- organic farming

The GoP 2004 budget dedicated 7.5 million PLN (US\$2.48 million) for organic farm support. Certified organic farms were eligible for 600 – 1,100 PLN (US\$199–\$365) per farm depending on farm size. Separately, organic farm support is also available under the partially EU funded RAD program “Agricultural Environment / Animal Welfare” category section noted in this report.

VI. IMPLEMENTATION REALITY

-Will Poland fully utilize the maximum amount of EU eligible funds?

Reality on direct payment implementation is one indicator that despite 1.4 million MARD reported applicants, only 460,000 were approved. Also, many programs require much additional paperwork and verification before a farmer, processor, storage company, training consultants, etc... are actually officially approved to receive these funds. MARD and GoP implementation of this new-to-Poland system also appears to be sometimes delayed although the government successfully obtained EU approval to advance the beginning date of direct payment distribution Oct. 18, 2004 instead of Dec. 1, 2004. Also, despite many challenges utilizing pre-accession SAPARD funds, the GoP was also able to obtain EU approval to move some of those funds into the post-accession 2004 Rural Area Development (RAD) program.

-Will the GoP be able to finance the GoP portions of such agricultural sector support programs?

Poland's 2004 GDP growth rate is estimated at 5.5-5.7 percent and expected to be 4.8-5.0 percent in 2005. Nevertheless, with 18.9 percent current unemployment, it still faces economic challenges, will likely have a new Government of Poland in mid-late 2005, and faces many budget constraints. Consequently, there was concern in Poland about whether or not its Government could meet its commitments for agricultural sector supports. Reportedly, it could do so but agricultural sector support levels fall within GoP and public debate as one of many budget challenges including that of its national health system.

VII. NEW SUPPORT PROGRAM IMPACTS

Agricultural Sector Overview

Placing things in context, Poland has 38.6 million people and in the EU-25 it ranks 6th in terms of both population and area. Farms are defined as farms if there are one or more hectares. Officially, there are over 1.9 million farms in Poland with the national farm area being 18 million hectares (44.5 million acres); this roughly equates the number of total U.S. farms while Poland's farm area is slightly less than that of the state of Kansas. It is generally considered that about 400,000-500,000 farms are commercially viable. The average farm size is 8.3 hectares (20.5 acres), over 85% of dairy farms have fewer than five cows, and about one-in-four people in Poland's labor force work in agriculture. Major crops are wheat, potatoes, rye, sugar beets and rapeseed while livestock is mainly hogs, dairy cattle, and a fast rising poultry sector.

Farmers

Many Polish farmers financially benefited from Poland's EU accession largely as a combination of new domestic support mechanisms and fast rising agricultural sales prices (especially livestock and dairy) within the EU-25. Nevertheless, Poland's agriculture sector is still undergoing a challenging transition period as they and their government adjusts to EU membership, financing, and requirements.

Despite some pre-accession domestic political speculation that this new system would be a serious economic problem for Polish farmers, the reality is that it is complex yet provides a wide array of domestic support options that augment farmer incomes, increase processing plant competitiveness, upgrade agricultural sector infrastructure (storage, roads, drainage....), etc... Farmers from Poland's many small scale semi-subsistence farms appear not as pleased as those from medium and larger scale commercial farms who appear to be benefiting the most.

Farm consolidation and reduction of the number of farms will occur but such transition is expected to be very slow in the near term given new financial supports including a broader direct payment system, rising agricultural product prices, and high national unemployment (18.9%) which means farmers wishing to opt out to non-agricultural jobs currently have few such options.

While most Polish farmers are benefiting from accession, some, such as fruit and berry producers, are less pleased at the level of support. However they do have multiple accession

related funding options including for producer groups, per hectare direct payment, and other RAD and SOP funding resource options including for organic orchards and berry production.

Processing Plants

Programs supporting upgrading and renovations of food, meat, dairy and seafood processing facilities have tremendously impacted Poland's burgeoning agricultural economy. If they had not already undergone many processing plant improvements prior to accession, many utilizing EU SAPARD funds, far fewer would have met EU standards. There are a certain number of such facilities still undergoing financing support upgrades, particularly those given a transition period after May 1, 2004 accession until the end of 2006 or 2007 per following table 8.

As an example of one meat processor's benefit noted in an August 23, 2004 Polish business media article, in late July 2004 a large investor in the Polish meat market, ZM Duda, was reported to have signed its 5th agreement with ARIMR on financing from the EU SAPARD program having received a total 9.9 million PLN (\$3.3 million). Subsidization is limited to processing plants using 100 percent raw materials only from Poland or other EU countries according to Council Regulation (EC) No. 1257/1999, Article 28, point 1. Consequently, third country invested/owned facilities are not eligible.

Table 8: Poland Meat and Dairy Plants In Transition

**Number of Plants Eligible for Production on the EU Market
and Number of Plants in Transition Period**

| | Number of Plants Currently Eligible for Production on the EU Market | Number of Plants in Transition Period | Termination of the Transition Period "No later than" |
|---|--|--|--|
| Dairy Plants | 212 | 144 | 12/31/2006 |
| Red Meat Plants (slaughter and cutting) | 596 | 408 | 12/31/2007 |
| Poultry Meat Plants | 165 | 73 | 12/31/2007 |
| Meat Processing Plants | 363 | N/A | N/A |

Commodity and Trade

Over the course of the past year, FAS Warsaw has concentrated on incorporating in all GAIN commodity and other reports aspects of the changing Polish market and specific commodity and trade impacts related to Poland's EU accession. For further such information, FAS Warsaw GAIN reports listed below are available on the FAS website (www.fas.usda.gov).

FAS Warsaw also contributed Poland production, supply and demand information to FAS

EU-25 grain, oilseed, dairy, livestock and poultry consolidated GAIN reports which are also accessible via the FAS website and the FAS/U.S. Mission to the European Union (USEU) website (www.useu.be/agri/usda.html).

FAS Warsaw Marketing Briefs:

PL4017 Wine, 6/24/04
PL4018 Seafood, 7/30/04
PL4019 Value Added Products Update, 7/19/04
PL4020 Grapefruit, 8/10/04
PL4022 Dried Fruit and Nuts, 7/22/04
PL4025 Distilled Spirits, 8/13/04

FAS Warsaw Commodity Reports Incorporating EU Accession Impact Elements:

PL4013 Polish Farmer Incomes After EU Accession, 5/31/04
PL4015 Polish Poultry Meat Exports to EU-15 Jump After It's EU Accession, 6/8/04
PL4017 Cotton Update, 6/24/04
PL4028 Exporter Guide, 8/20/04
PL4030 Fresh Deciduous Fruit – Apples and CAJ, 9/02/04
PL4032 Sugar Update, 10/01/04
PL4033 Grain Update, 10/06/04
PL4034 Oilseed Update, 10/06/04
PL4037 Poland's EU Accession Dramatically Boosts It's Dairy Sector, 10/18/04
PL4038 Strawberry Annual, 10/19/04
PL4042 Poland's EU Accession Boost It's Meat Sector, 11/03/04

FAS USEU EU Domestic Support Report:

E34044 CAP Reform 2003 – Deconstructing Decoupling, 8/6/04